EUROPEAN COMMISSION

STATEMENT

Brussels, 15 April 2014

Finalising the Banking Union: European Parliament backs Commission's proposals (Single Resolution Mechanism, Bank Recovery and Resolution Directive, and Deposit Guarantee Schemes Directive)

Internal Market and Services Commissioner Michel Barnier said: "Today, the European Parliament has adopted 3 key texts to complete the legislative work underpinning the banking union. Thanks to the assiduous work of the co-legislators, we have turned the idea of a Banking Union into reality in less than two years. The EU has lived up to its commitments: the banking union completes the economic and monetary union and ensures taxpayers will no longer foot the bill when banks face difficulties.

Not only does the banking union help to restore confidence in the banking sector, but it also ensures a truly European system of supervision and resolution of banks when they fail. With today's vote, we remain on track for the operational work to start later this year.

The 3 texts adopted today are interconnected.

The Bank Restructuration and Resolution directive sets new rules for all 28 Member States to put an end to the old paradigm of bank bail-outs, which cost taxpayers' hundreds of billions of euros in the crisis. For the first time, it enshrines in binding rules the principle of bail-in so that shareholders and creditors pay for banks' mistakes, not taxpayers. Any additional funds exceptionally required will come from the banking sector itself in the shape of specially set up resolution funds.

The Single Resolution Mechanism implements the BRRD in the Eurozone and any other participating Member State. The agreement is based on a strong and efficient Single Resolution Board at its centre, where the Commission and Council respective role is limited to a minimum. The SRM will allow for the timely and effective resolution of cross border and domestic banks, over a weekend if necessary. Within the Banking Union, the resolution funds will be pooled into one Single Resolution fund.

Together with the provisions on preferential treatment for depositors set out in the BRRD rules, the recast Directive on Deposit Guarantee schemes, strengthens even further the protection of depositors: with pre-funded guarantee schemes in each Member State, depositors can rest assured that whatever happens to the bank they deposit money in, their savings up to EUR 100,000 remain fully protected from any loss.

I would like to thank all MEPs involved and in particular the rapporteurs of the three texts, respectively- Mrs Elisa Ferreira, Mr Gunnar Hökmark and Mr Peter Simon – as well as the shadow rapporteurs.

Together with the regulatory reforms for the financial sector in all 28 countries (the single rule book for banks), the completed banking union creates the right conditions under which the financial sector can once again lend to the real economy, spurring economic recovery and job creation.

Background

Bank Recovery and Resolution Directive (BRRD)

The BRRD (IP/12/570) is the single rulebook for the resolution of banks and large investment firms in all EU Member States. It harmonises and upgrades the tools for dealing with bank crises across the EU. Banks will be required to prepare recovery plans to overcome financial distress, while authorities will lay out plans to resolve failed banks in a way which preserves their most critical functions and avoids taxpayers having to bail them out. Authorities are granted a set of powers to intervene in the operations of banks to avoid them failing. If they do face failure, authorities are equipped with comprehensive powers and tools to restructure them, allocating losses to shareholders and creditors following a clearly defined hierarchy.

National resolution funds are set up, to be replaced for Euro Area Member States by the Single Resolution Fund as of 2016. Precise arrangements are set out for how home and host authorities of banking groups are to cooperate in all stages of cross-border resolution, from resolution planning to resolution itself, with a strong role for the European Banking Authority to coordinate and mediate in case of disagreements. The rulebook set out in the BRRD will be further complemented by technical rules to be developed by the European Banking Authority on, for instance, concrete information requirements for recovery and resolution plans and securing accurate valuations of assets and losses at the point of resolution. More info, see MEMO/14/297

Single Resolution Mechanism (SRM)

The Single Resolution Mechanism (IP/13/674) will complement the Single Supervisory Mechanism (SSM, IP/12/953) and will ensure that – notwithstanding stronger supervision – if a bank subject to the SSM faces serious difficulties, its resolution can be managed efficiently with minimal costs to taxpayers and the real economy. The SRM will apply to all banks in the Euro Area and other Member States that opt to participate. The division of powers of the Single Resolution Board and national resolution authorities broadly follows the division of supervisory powers between the ECB and national supervisors in the context of the Single Supervisory Mechanism. The decision to resolve a failing bank will in most cases start with the ECB notifying that a bank is failing to the Board, the Commission, and the relevant national resolution authorities. The Board will then adopt a resolution scheme including the relevant resolution tools and any use of the Fund. Before the Board adopts its decision, the Commission will assess its compliance with State aid rules. The Commission will then assess the Board's decision against the resolution objectives and either endorse or object to the resolution scheme. Only when the Commission significantly modifies the amount of resources drawn from the Single Fund or contests the public interest in resolving the bank and considers it could be put into normal insolvency instead, this will be subject to approval or objection by the Council (silence procedure). Where the Council or the Commission object to the resolution scheme, the Board will have to amend the resolution scheme. The resolution scheme will then be implemented by the national resolution authorities, in accordance with national law including relevant provisions transposing the Bank Recovery and Resolution Directive.

The Single Resolution Fund will be constituted from contributions from all banks in the participating Member States. It will be administrated by the Board. The Fund has a target level of €55 billion and can borrow from the markets if decided by the Board. It will reach the target level over 8 years. During the transition, the Fund will comprise national compartments, the resources accumulated in which will be progressively mutualised, starting with 40% of these resources in the first year. The Fund and the decision-making on its use is regulated by the SRM Regulation, while the transfer of contributions raised nationally towards the Single Fund and the mutualisation of the national compartments is set out in an inter-governmental agreement established among the participating Member States. More info in MEMO/14/295

Deposit Guarantee Schemes (DGS)

The Directive on Deposit Guarantee Schemes (IP/10/918) ensures that depositors will continue to benefit from a guaranteed coverage of €100,000 in case of bankruptcy backed by funds to be collected in advance from the banking sector. For the first time since the introduction of DGS in 1994, there are financing requirements for DGS in the Directive. In principle, the target level for ex ante funds of DGS is 0.8% of covered deposits (i.e. about € 55 billion) to be collected from banks over a 10-year period.

In addition, access to the guaranteed amount will be easier and faster. Repayment deadlines will be gradually reduced from the current 20 working days to 7 working days in 2024.

These new rules will benefit all EU citizens: not only will their savings be better protected, but they will also have the choice of the best savings products available in any EU country without worrying about differences in the level of protection. The new Directive will require better information to be provided to depositors to ensure that they are aware of how their deposits are protected by the guarantee schemes. More info in MEMO/14/296

For more information on the banking union

See MEMO/14/294; a citizen-friendly and cross-cutting memo on banking union, which is published today.

See MEMO/14/244, which provides a wider overview of the architecture of the banking union and of the reinforced framework for the banks of the 28 Member States.

and consult the website:

http://ec.europa.eu/internal_market/finances/banking-union/index_en.htm

http://ec.europa.eu/internal_market/bank/crisis_management/index_en.htm

http://ec.europa.eu/internal_market/bank/guarantee/index_en.htm

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